



A REPORT
TO THE
MONTANA
LEGISLATURE

FINANCIAL-COMPLIANCE AUDIT

Judicial Branch

*For the Two Fiscal Years Ended
June 30, 2016*

FEBRUARY 2017

LEGISLATIVE AUDIT
DIVISION

16-27

**LEGISLATIVE AUDIT
COMMITTEE**

REPRESENTATIVES

RANDY BRODEHL, CHAIR
Randybrodehl57@gmail.com

KIM ABBOTT
Rep.Kim.Abbott@mt.gov

DAN BARTEL
Danbartel2@gmail.com

TOM BURNETT
Burnett.tom@gmail.com

VIRGINIA COURT
virginacourt@yahoo.com

DENISE HAYMAN
Rep.Denise.Hayman@mt.gov

SENATORS

DEE BROWN
senatordee@yahoo.com

TERRY GAUTHIER
Mrmac570@me.com

BOB KEENAN
Sen.Bob.Keenan@mt.gov

MARY McNALLY, VICE CHAIR
McNally4MTLeg@gmail.com

J.P. POMNICHOWSKI
pomnicho@montanadsl.net

GENE VUCKOVICH
Sen.Gene.Vuckovich@mt.gov

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FINANCIAL-COMPLIANCE AUDITS

Financial-compliance audits are conducted by the Legislative Audit Division to determine whether an agency's financial operations are properly conducted, the financial reports are presented fairly, and the agency has complied with applicable laws and regulations. In performing the audit work, the audit staff uses standards set forth by the American Institute of Certified Public Accountants and the United States Government Accountability Office. Financial-compliance audit staff members hold degrees with an emphasis in accounting. Most staff members hold Certified Public Accountant (CPA) licenses.

The Single Audit Act Amendments of 1996 and the Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards require the auditor to issue certain financial, internal control, and compliance reports in addition to those reports required by Government Auditing Standards. This individual agency audit report is not intended to comply with these reporting requirements and is therefore not intended for distribution to federal grantor agencies. The Legislative Audit Division issues a statewide biennial Single Audit Report which complies with the above reporting requirements. The Single Audit Report for the two fiscal years ended June 30, 2015, was issued March 29, 2016. The Single Audit Report for the two fiscal years ended June 30, 2017, will be issued by March 31, 2018. Copies of the Single Audit Report can be obtained by contacting:

Single Audit Coordinator
Office of Budget and Program Planning
Room 277, State Capitol
P.O. Box 200802
Helena, MT 59620-0802

Legislative Audit Division
Room 160, State Capitol
P.O. Box 201705
Helena, MT 59620-1705

AUDIT STAFF

MARY CURRIN
JENNIFER ERDAHL

JESSICA CURTIS

Reports can be found in electronic format at:
<http://leg.mt.gov/audit>

LEGISLATIVE AUDIT DIVISION

Angus Maciver, Legislative Auditor
Deborah F. Butler, Legal Counsel



Deputy Legislative Auditors:
Cindy Jorgenson
Joe Murray

February 2017

The Legislative Audit Committee
of the Montana State Legislature:

This is our financial-compliance audit report on the Judicial Branch (branch) for the two fiscal years ended June 30, 2016. Included in this report are recommendations related to compliance with state laws and policies.

During the audit, we focused on expenditures for personal services, benefits to individuals, other services, communications, and intangible assets. We also performed work over federal revenues, as well as testing compliance with state laws and policies.

The branch's written response to the recommendations is included in the audit report at page C-1. We thank the Chief Justice, and the Court Administrator and her staff, for their cooperation and assistance throughout the audit.

Respectfully submitted,

/s/ Angus Maciver

Angus Maciver
Legislative Auditor

TABLE OF CONTENTS

Elected and Appointed Officials	ii
Report Summary	S-1
CHAPTER I – INTRODUCTION.....	1
Audit Objectives.....	1
Background.....	1
CHAPTER II – FINDINGS AND RECOMMENDATIONS.....	5
Annual Attorney License Tax.....	5
INDEPENDENT AUDITOR’S REPORT AND BRANCH FINANCIAL SCHEDULES	
Independent Auditor’s Report	A-1
Schedule of Changes in Fund Equity & Property Held in Trust for the Fiscal Year Ended June 30, 2016.....	A-3
Schedule of Changes in Fund Equity & Property Held in Trust for the Fiscal Year Ended June 30, 2015.....	A-4
Schedule of Total Revenues & Transfers-In for the Fiscal Year Ended June 30, 2016.....	A-5
Schedule of Total Revenues & Transfers-In for the Fiscal Year Ended June 30, 2015.....	A-6
Schedule of Total Expenditures & Transfers-Out for the Fiscal Year Ended June 30, 2016.....	A-7
Schedule of Total Expenditures & Transfers-Out for the Fiscal Year Ended June 30, 2015.....	A-8
Notes to the Financial Schedules	A-9
REPORT ON INTERNAL CONTROL AND COMPLIANCE	
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Schedules Performed in Accordance with <i>Government</i> <i>Auditing Standards</i>	B-1
BRANCH RESPONSE	
Judicial Branch	C-1

ELECTED AND APPOINTED OFFICIALS

			<u>Term Expires</u>
Supreme Court	Mike McGrath	Chief Justice	2024
	Beth Baker	Justice	2018
	Dirk Sandefur	Justice	2024
	Laurie McKinnon	Justice	2020
	James Jeremiah Shea	Justice	2020
	Jim Rice	Justice	2022
	Michael Wheat	Justice	2022
Clerk of Supreme Court	Ed Smith		2018
Appointed Officials	Beth McLaughlin, Court Administrator		
	Sarah McClain, State Law Librarian		

For additional information concerning the Judicial Branch, contact:

Beth McLaughlin, Court Administrator
 Montana Supreme Court
 P.O. Box 203002
 Helena, MT 59620-3002
 (406) 841-2957
 e-mail: bmclaughlin@mt.gov



MONTANA LEGISLATIVE AUDIT DIVISION

FINANCIAL-COMPLIANCE AUDIT Judicial Branch

For the Two Fiscal Years Ended June 30, 2016

FEBRUARY 2017

16-27

REPORT SUMMARY

The Judicial Branch's main operations consist of the Supreme Court and district courts. The branch expended total General Fund resources of approximately \$47 million and \$39 million in fiscal years 2016 and 2015, respectively. We found the Judicial Branch can improve the timeliness of attorney license tax deposits as well as compliance with related contracting law and procurement rules.

Context

The judicial power of the state is vested in the Supreme Court; district courts in the 22 judicial districts; the Workers' Compensation Court; the Water Court; courts of limited jurisdiction; and any other courts established by law. Judicial Branch (branch) operations include the Supreme Court, Clerk of the Supreme Court, the Water Court, district courts, the State Law Library, and the computer technology of all courts, including those of limited jurisdiction.

Branch activities include district court expenses for district court judges, staff, and youth probation officers; the Supreme Court's Justices, Court Administrator's Office, and Clerk of the Supreme Court; the Law Library; and Water Courts. The branch is overseen by the Supreme Court and administered by the Court Administrator's Office. District courts' jurisdiction includes criminal, tort, contract, and property rights as well as domestic relations, mental health, estate, civil appeals, and other miscellaneous civil cases. The water courts' activities are limited to adjudication of existing water rights. The Law Library provides reference services to the public.

One area we examined during the audit was Benefits and Claims to Individuals. Benefits and Claims expenditures are expenditures that benefit clients in drug treatment courts with

items such as incentives, medical services, and transportation. Benefits and Claims related to Drug Treatment Courts are found in both the Supreme Court program and District Court program depending on the type of funding for the court. Expenditures related to the placement of juveniles are also recorded as Benefits and Claims to Individuals. The branch implemented statutory changes related to Juvenile Placement funds as described in Note 4.

The branch spent approximately \$200,000 and \$600,000 in fiscal years 2016 and 2015, respectively, from the Capital Project Fund for long range information technology projects. At June 30, 2016, approximately \$1.2 million in fund equity remained from resources appropriated for these projects in prior fiscal years.

Results

Readers can rely on the amounts reported on the financial schedules of the branch.

This report contains one recommendation to the branch. It involves timely depositing of attorney license tax as well as related contracting law and procurement rules.

(continued on back)

Recommendation Concurrence	
Concur	1
Partially Concur	0
Do Not Concur	0
Source: Agency audit response included in final report.	

For a complete copy of the report (16-27) or for further information, contact the Legislative Audit Division at 406-444-3122; e-mail to lad@mt.gov; or check the web site at <http://leg.mt.gov/audit>
Report Fraud, Waste, and Abuse to the Legislative Auditor's FRAUD HOTLINE
Call toll-free 1-800-222-4446, or e-mail ladhotline@mt.gov.

Chapter I – Introduction

Audit Objectives

We performed a financial-compliance audit of the Judicial Branch (branch) for the two fiscal years ended June 30, 2016. The objectives of the audit were to:

1. Determine whether the branch complied with selected state and federal laws and regulations.
2. Obtain an understanding of the branch's control system to the extent necessary to support our audit of the branch's financial schedules, and if appropriate, make recommendations for improvement in the internal and management controls of the branch.
3. Determine whether the branch's financial schedules for each of the two fiscal years ended June 30, 2016, fairly present the results of operations in accordance with state accounting policy.

During the audit, we focused on expenditures for personal service, benefits to individuals, other services, communications, and intangible assets. We also performed work over federal revenues, as well as testing compliance with state laws and policies.

Background

The Constitution of the state of Montana establishes the Judicial Branch and vests the judicial power of the state in one Supreme Court, district courts, justice courts, and such other courts as may be provided by law. In statute, the legislature has exercised its constitutional powers to further define the judicial function, usually referring to the judicial function as the Judicial Branch. The Supreme Court, which consists of a Chief Justice and six justices, has appellate jurisdiction and limited original jurisdiction. The Chief Justice is the head of the Supreme Court. The Court Administrator, appointed by the Supreme Court, serves as its administrative officer. The Supreme Court also appoints the Law Librarian. The librarian develops and maintains the Law Library collection and administers library services.

The Supreme Court has general supervisory control over all other courts and may make rules governing appellate procedures, practice and procedure for all other courts, admission to the bar, and conduct of practicing attorneys. The rules of appellate procedure are subject to disapproval by the legislature in either of the two legislative sessions following promulgation.

Supreme Court justices and district court judges are elected to office in nonpartisan elections and serve eight-year and six-year terms, respectively. Terms of office and the procedure for filling vacancies in the courts are established in the Constitution and by

statute. The legislature establishes the judicial districts and provides for the number of judges in each district. Currently, there are 46 district court judges in 22 judicial districts.

The Clerk of Supreme Court is elected to a six-year term on a partisan ballot in a statewide election. In accordance with §3-2-402, MCA, the clerk keeps the Supreme Court's records and files, performs functions relating to issuing writs and certificates, approves bonds, files all paper and transcripts, and performs other duties as required by the Supreme Court.

For fiscal management purposes, the branch is divided into five programs. The branch is authorized a full-time equivalent (FTE) staff level of 439.08 for fiscal year 2016. A description of each program follows:

Supreme Court Operations (84.75 FTE) accounts for the costs of operation of the Supreme Court and Office of Court Administrator (office). The office provides services to the branch including information technology, budget and finance, payroll and human resource management, policy and technical support for the youth courts, judicial education, children's services provided through the federally funded Court Assessment Program, and drug treatment court expenses supported by the General Fund and fee revenue. The office also provides information technology services to courts of limited jurisdiction, which are not part of branch operations. In fiscal year 2016, the Supreme Court Operations Program included funding for juvenile placement formally managed by the Department of Corrections.

Law Library (6.75 FTE) accounts for the operation of the State Law Library. The branch maintains the library for the use by the Supreme Court, the legislature, state officers and employees, members of the bar, and the general public.

District Court Operations (317.58 FTE) accounts for the payment of salaries, travel, training expenses, and operating costs for district court judges, their staff, and youth probation officers. It also includes drug treatment court expenses funded by federal grants and private donations, and certain adult criminal, child abuse, and child neglect case expenses.

Water Courts Supervision (24.50 FTE) accounts for expenditures of the water courts. Montana's water courts were created to adjudicate claims of existing water rights in Montana and supervise the distribution of water within the four water divisions of the state.

Clerk of Court (5.50 FTE) accounts for the costs of operation of the Clerk of Supreme Court. Duties of the clerk include keeping the Supreme Court's records and files, making transcripts for the Supreme Courts, and filing papers or transcripts required by law.

Chapter II – Findings and Recommendations

Annual Attorney License Tax

The branch can improve contract compliance and monitoring of the State Bar's collection of the annual attorney license tax.

State law requires an attorney licensed in the state of Montana to pay a license tax of \$25 per year. Because the attorneys pay other fees to the bar, the Judicial Branch (branch) has a contract with the State Bar (bar) to collect the license tax. The bar is a non state entity whose purpose is to require high standards of those engaged in the practice of law. The bar collects approximately \$121,000 annually for attorney license tax. There are two state laws related to the depositing of attorney license tax revenue. Under §37-61-213, MCA, "all moneys so collected during any month shall, on or before the first day of the succeeding month, be delivered to and deposited with the state treasurer by the clerk of the supreme court." The bar was not consistently depositing the money on a monthly basis. Out of the 24 months in the audit period, we found 9 months where the deposits were not in compliance with state law noted above. The contract with the bar did require the monthly deposit, but the requirement of "on or before the first day of the succeeding month" was not enforced.

Section 17-6-105(6), MCA, requires the moneys collected by an agency to be deposited "when the accumulated amount of coin and currency requiring deposit exceeds \$200 or total collections exceed \$750." The law further requires the collections to be deposited at least weekly. Per state law, an agency includes a contractor who collects "at least \$50,000 annually on behalf of the state from all sources." Even though annual collections exceed \$50,000, the bar has not adhered to deposit requirements set forth in this law because the branch was not aware that the bar would be under any requirement other than §37-61-213, MCA. After communicating the deposit requirements under §17-6-105(6), MCA, branch staff directed the State Bar of Montana to make deposits in compliance with §17-6-105(6), MCA. The deposits made at least weekly will also ensure compliance with the required monthly deposits. The branch did review the deposits from the bar to insure they were correct and complete. However, timely deposits will better ensure the safety of state resources.

During the audit, we also communicated noncompliance with administrative rule related to the contract with the bar. The branch considers the bar to be a sole source vendor. It is allowable to have procurement restricted to one vender (sole source) if there is no existent equivalent product or service. Administrative rules, however, requires state agencies to fill out a sole source procurement justification form and submit it to

the Department of Administration. The submission of the Sole Source Procurement justification form gives the Department of Administration the opportunity to examine and approve the appropriateness of the procurement. During review of the attorney tax revenue, we noted the branch had not submitted a Sole Source Procurement justification form. We communicated the requirement to the branch and they now have a Sole Source justification form approved by the Department of Administration. In addition, state law prohibits a contract to be made for a period exceeding 7 years. In our review of the contract, we noted the contract could be renewed indefinitely. The branch is also working on updating the contract with the bar.

RECOMMENDATION #1

We recommend the Judicial Branch:

- A. *Ensure the attorney license tax is deposited according to state law.*
 - B. *Comply with contracting law and administrative rule when contracting with the State Bar.*
-

Independent Auditor's Report and Branch Financial Schedules

LEGISLATIVE AUDIT DIVISION

Angus Maciver, Legislative Auditor
Deborah F. Butler, Legal Counsel



Deputy Legislative Auditors:
Cindy Jorgenson
Joe Murray

INDEPENDENT AUDITOR'S REPORT

The Legislative Audit Committee
of the Montana State Legislature:

Introduction

We have audited the accompanying Schedules of Changes in Fund Equity & Property Held in Trust, Schedules of Total Revenues & Transfers-In, and Schedules of Total Expenditures & Transfers-Out of the Judiciary for each of the fiscal years ended June 30, 2016, and 2015, and the related notes to the financial schedules.

Management's Responsibility for the Financial Schedules

Management is responsible for the preparation and fair presentation of these financial schedules in accordance with the regulatory format prescribed by the Legislative Audit Committee, based on the transactions posted to the state's accounting system without adjustment; this responsibility includes recording transactions in accordance with state accounting policy; and designing, implementing, and maintaining internal controls relevant to the preparation and fair presentation of the financial schedules that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial schedules based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial schedules are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial schedules. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial schedules, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the Judiciary's preparation and fair presentation of the financial schedules in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Judiciary's internal control, and accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as the overall presentation of the financial schedules.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Basis for Adverse Opinions on U.S. Generally Accepted Accounting Principles

As described in Note 1, the financial schedules are prepared from the transactions posted to the state's primary accounting system without adjustment, in the regulatory format prescribed by the Legislative Audit Committee. This is a basis of accounting other than accounting principles generally accepted in the United States of America. The financial schedules are not intended to, and do not, report assets, liabilities, and cash flows.

The effects on the financial schedules of the variances between the regulatory basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

Adverse Opinions on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the "Basis for Adverse Opinions on U.S. Generally Accepted Accounting Principles" paragraph, the financial schedules referred to above do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the Judiciary as of June 30, 2016, and June 30, 2015, or changes in financial position or cash flows for the years then ended.

Unmodified Opinions on Regulatory Basis of Accounting

In our opinion, the Schedules of Changes in Fund Equity & Property Held in Trust, Schedules of Total Revenues & Transfers-In, and Schedules of Total Expenditures & Transfers-Out, present fairly, in all material respects, the results of operations and changes in fund equity and property held in trust of the Judiciary for each of the fiscal years ended June 30, 2016, and 2015, in conformity with the basis of accounting described in Note 1.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 3, 2017, on our consideration of the department's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the department's internal control over financial reporting and compliance.

Respectfully submitted,

/s/ Cindy Jorgenson

Cindy Jorgenson, CPA
Deputy Legislative Auditor
Helena, MT

January 3, 2017

JUDICIARY
SCHEDULE OF CHANGES IN FUND EQUITY & PROPERTY HELD IN TRUST
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Capital Projects Fund	Enterprise Fund	Agency Fund
FUND EQUITY: July 1, 2015	\$ (2,049,844)	\$ 6,284,165	\$ 0	\$ 598,714	\$ 9,199	\$ 0
PROPERTY HELD IN TRUST: July 1, 2015						\$ 7,799
ADDITIONS						
Budgeted Revenues & Transfers-In	191,712	3,847,273	2,069,409		210,792	
Nonbudgeted Revenues & Transfers-In	531	13,554		834,000		
Prior Year Revenues & Transfers-In Adjustments	776	(1,039)	(14)			
Direct Entries to Fund Equity	46,920,476	1,190,696				
Additions to Property Held in Trust						340,218
Total Additions	47,113,495	5,050,484	2,069,395	834,000	210,792	340,218
REDUCTIONS						
Budgeted Expenditures & Transfers-Out	47,427,597	4,525,846	2,069,355	194,673	202,991	
Nonbudgeted Expenditures & Transfers-Out	(6,048)	3,010				
Prior Year Expenditures & Transfers-Out Adjustments	48,538	(3,823)	40			345,956
Reductions in Property Held in Trust				194,673	202,991	345,956
Total Reductions	47,470,087	4,525,033	2,069,395	194,673	202,991	345,956
FUND EQUITY: June 30, 2016	\$ (2,406,436)	\$ 6,809,615	\$ 0	\$ 1,238,041	\$ 17,000	\$ 0
PROPERTY HELD IN TRUST: June 30, 2016						\$ 2,061

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-9.

JUDICIARY
SCHEDULE OF CHANGES IN FUND EQUITY & PROPERTY HELD IN TRUST
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Capital Projects Fund	Enterprise Fund	Agency Fund
	\$ (1,827,789)	\$ 6,297,911	\$ 0	\$ 1,210,372	\$ 11,681	\$ 0
FUND EQUITY: July 1, 2014						
PROPERTY HELD IN TRUST: July 1, 2014						
ADDITIONS						
Budgeted Revenues & Transfers-In	180,244	3,828,612	1,424,965		194,921	
Nonbudgeted Revenues & Transfers-In	2,869	6,671	14			
Prior Year Revenues & Transfers-In Adjustments	(728)	(1,236)				
Direct Entries to Fund Equity	38,544,403	2,192,260				
Additions to Property Held in Trust						317,196
Total Additions	38,726,788	6,026,307	1,424,979	0	194,921	317,196
REDUCTIONS						
Budgeted Expenditures & Transfers-Out	38,971,026	6,038,653	1,424,979	611,658	197,403	
Nonbudgeted Expenditures & Transfers-Out	(34,753)	(1,572)				
Prior Year Expenditures & Transfers-Out Adjustments	12,570	2,972				
Reductions in Property Held in Trust						316,364
Total Reductions	38,948,842	6,040,053	1,424,979	611,658	197,403	316,364
FUND EQUITY: June 30, 2015	\$ (2,049,844)	\$ 6,284,165	\$ 0	\$ 598,714	\$ 9,199	\$ 0
PROPERTY HELD IN TRUST: June 30, 2015						7,799

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-9.

JUDICIARY
SCHEDULE OF TOTAL REVENUES & TRANSFERS-IN
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

TOTAL REVENUES & TRANSFERS-IN BY CLASS	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Capital Projects Fund	Enterprise Fund	Total
Licenses and Permits						
Taxes	\$ 121,875					\$ 121,875
Charges for Services	295		(14)			281
Monetary Settlements	38,286	\$ 522,152			\$ 210,792	771,229
Grants, Contracts, and Donations	5,157					5,157
Transfers-in		85,881				85,881
Federal Indirect Cost Recoveries	27,157	3,239,661	1,071,417	\$ 834,000		5,145,078
Miscellaneous	250	12,094				27,157
Federal			997,992			12,344
Total Revenues & Transfers-In	193,019	3,859,788	2,069,395	834,000	210,792	7,166,993
Less: Nonbudgeted Revenues & Transfers-In	531	13,554		834,000		848,084
Prior Year Revenues & Transfers-In Adjustments	776	(1,039)	(14)			(277)
Actual Budgeted Revenues & Transfers-In	191,712	3,847,273	2,069,409	0	210,792	6,319,186
Estimated Revenues & Transfers-In	190,300	3,903,000	2,073,659		217,000	6,383,960
Budgeted Revenues & Transfers-In Over (Under) Estimated	\$ 1,412	\$ (55,727)	\$ (4,251)	\$ 0	\$ (6,208)	\$ (64,774)
BUDGETED REVENUES & TRANSFERS-IN OVER (UNDER) ESTIMATED BY CLASS						
Licenses and Permits						
Charges for Services	\$ (3,125)				\$ (3,125)	(3,125)
Monetary Settlements	(1,014)	(38,679)			(6,208)	(45,901)
Grants, Contracts, and Donations	(2,843)					(2,843)
Transfers-in		(4,509)				(4,509)
Federal Indirect Cost Recoveries		(12,540)	(4,251)			(16,790)
Budgeted Revenues & Transfers-In Over (Under) Estimated	\$ 8,394	\$ (55,727)	\$ (4,251)	\$ 0	\$ (6,208)	\$ 8,394
	\$ 1,412	\$ (55,727)	\$ (4,251)	\$ 0	\$ (6,208)	\$ (64,774)

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment.
Additional information is provided in the notes to the financial schedules beginning on page A-9.

JUDICIARY
SCHEDULE OF TOTAL REVENUES & TRANSFERS-IN
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

TOTAL REVENUES & TRANSFERS-IN BY CLASS

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Enterprise Fund	Total
Licenses and Permits					
Taxes	\$ 121,975				\$ 121,975
Charges for Services	578		14		593
Investment Earnings	35,315	\$ 379,819		\$ 194,921	610,055
Monetary Settlements		19			19
Grants, Contracts, and Donations	6,275				6,275
Transfers-in		21,807			21,807
Federal Indirect Cost Recoveries	15,865	3,429,038	538,665		3,967,703
Miscellaneous	2,377				15,865
Federal		3,364			5,741
Total Revenues & Transfers-In	182,385	3,834,047	886,300	194,921	5,636,332
Less: Nonbudgeted Revenues & Transfers-In	2,869	6,671	14		9,554
Prior Year Revenues & Transfers-In Adjustments	(728)	(1,236)			(1,965)
Actual Budgeted Revenues & Transfers-In	180,244	3,828,612	1,424,965	194,921	5,628,742
Estimated Revenues & Transfers-In	187,000	3,841,631	1,424,391	190,000	5,643,021
Budgeted Revenues & Transfers-In Over (Under) Estimated	\$ (6,756)	\$ (13,019)	\$ 574	\$ 4,921	\$ (14,279)

BUDGETED REVENUES & TRANSFERS-IN OVER (UNDER) ESTIMATED BY CLASS

Licenses and Permits	\$ 1,975			\$ 1,975
Charges for Services	(9,835)	\$ (2,465)		(7,380)
Investment Earnings		(181)		(181)
Monetary Settlements	(1,225)			(1,225)
Transfers-in		(10,372)		(10,372)
Federal Indirect Cost Recoveries	2,543			2,543
Miscellaneous	(213)			(213)
Federal			574	574
Budgeted Revenues & Transfers-In Over (Under) Estimated	\$ (6,756)	\$ (13,019)	\$ 574	\$ (14,279)

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment.
 Additional information is provided in the notes to the financial schedules beginning on page A-9.

JUDICIARY
SCHEDULE OF TOTAL EXPENDITURES & TRANSFERS-OUT
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

PROGRAM (ORG) EXPENDITURES & TRANSFERS-OUT	Clerk of Court	District Court Operations	Law Library	Supreme Court Operations	Water Courts Supervision	Total
Personal Services						
Salaries	\$ 341,020	\$ 18,171,143	\$ 256,305	\$ 4,586,921	\$ 1,468,333	\$ 24,823,722
Employee Benefits	124,072	7,506,651	111,386	1,830,575	556,696	10,129,382
Total	465,092	25,677,794	367,693	6,417,496	2,025,028	34,953,103
Operating Expenses						
Other Services	9,550	2,149,385	3,122	1,534,996	3,011	3,700,063
Supplies & Materials	8,786	246,758	188,345	1,330,422	14,437	1,768,749
Communications	7,345	270,654	4,112	999,776	47,017	1,328,904
Travel	2,766	210,833	1,563	252,171	8,727	476,061
Rent	9,240	43,899		672,187	154,937	880,263
Repair & Maintenance		52,334	4,973	835,571	4,407	897,285
Other Expenses	1,188	95,541	362,842	43,888	35,297	538,555
Total	38,875	3,069,404	564,957	5,668,811	267,833	9,609,880
Equipment & Intangible Assets						
Equipment		11,452	106,966	118,723		237,141
Intangible Assets				934,710		934,710
Total		11,452	106,966	1,053,433		1,171,851
Benefits & Claims						
To Individuals		3,389,281		2,151,348		5,540,629
Total		3,389,281		2,151,348		5,540,629
Transfers-out						
Fund transfers						
Total				3,181,841		3,181,841
Debt Service						
Capital Leases			4,875			4,875
Total			4,875			4,875
Total Expenditures & Transfers-Out	\$ 503,967	\$ 32,147,931	\$ 1,044,491	\$ 18,472,928	\$ 2,292,862	\$ 54,462,179
EXPENDITURES & TRANSFERS-OUT BY FUND						
General Fund	\$ 503,967	\$ 28,049,762	\$ 841,500	\$ 16,982,979	\$ 1,091,879	\$ 47,470,087
State Special Revenue Fund		3,064,125		259,926	4,525,033	4,525,033
Federal Special Revenue Fund		1,034,045		1,035,350	2,069,395	2,069,395
Capital Projects Fund				194,673	194,673	194,673
Enterprise Fund			202,991		202,991	202,991
Total Expenditures & Transfers-Out	503,967	32,147,931	1,044,491	18,472,928	2,292,862	54,462,179
Less: Nonbudgeted Expenditures & Transfers-Out	(108)	(108)	(104)	(1,119)	(323)	(3,039)
Prior Year Expenditures & Transfers-Out Adjustments		39,978	195	4,582		44,755
Actual Budgeted Expenditures & Transfers-Out	504,075	32,109,338	1,044,400	18,469,465	2,293,185	54,420,463
Budget Authority	529,023	38,096,755	1,159,096	22,104,790	2,364,137	64,253,801
Unspent Budget Authority	\$ 24,948	\$ 5,987,417	\$ 114,696	\$ 3,635,326	\$ 70,952	\$ 9,833,339
UNSPENT BUDGET AUTHORITY BY FUND						
General Fund	\$ 24,948	\$ 998,202	\$ 113,390	\$ 988,043	\$ 694	\$ 2,125,277
State Special Revenue Fund		3,202,643		189,125	70,259	3,462,026
Federal Special Revenue Fund		1,786,573		1,220,116		3,006,689
Capital Projects Fund				1,238,041		1,238,041
Enterprise Fund			1,306			1,306
Unspent Budget Authority	\$ 24,948	\$ 5,987,417	\$ 114,696	\$ 3,635,326	\$ 70,952	\$ 9,833,339

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-9.

JUDICIARY
SCHEDULE OF TOTAL EXPENDITURES & TRANSFERS-OUT
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

PROGRAM (ORG) EXPENDITURES & TRANSFERS-OUT

	Clerk of Court	District Court Operations	Law Library	Supreme Court Operations	Water Courts Supervision	Total
Personal Services						
Salaries	\$ 336,636	\$ 17,460,340	\$ 292,007	\$ 4,212,751	\$ 1,413,650	\$ 23,715,584
Employee Benefits	127,740	6,971,004	117,891	1,611,887	525,042	9,353,564
Total	464,576	24,431,344	409,899	5,824,638	1,938,692	33,089,148
Operating Expenses						
Other Services	22,305	1,856,826	356,586	1,310,959	13,897	3,560,573
Supplies & Materials	5,280	354,510	207,150	942,268	16,217	1,525,425
Communications	8,161	243,931	4,754	1,460,814	29,608	1,747,268
Travel	423	118,048	1,665	204,778	8,795	333,709
Rent	8,522	39,104		593,663	151,790	793,079
Repair & Maintenance	458	43,715	399	649,987	4,881	699,439
Other Expenses	635	43,457	11,619	20,460	22,253	98,425
Total	45,783	2,699,592	582,174	5,182,929	247,440	8,757,918
Equipment & Intangible Assets						
Equipment		44,502	115,590	116,029	12,700	288,820
Intangible Assets				756,735		756,735
Total		44,502	115,590	872,764	12,700	1,045,555
Grants						
From Federal Sources				22,928		22,928
Total				22,928		22,928
Benefits & Claims						
To Individuals		3,771,687		547,708		4,319,395
From Federal Sources		263				263
Total		3,771,949		547,708		4,319,657
Debt Service						
Capital Leases			7,730			7,730
Total			7,730			7,730
Total Expenditures & Transfers-Out	\$ 510,359	\$ 30,947,386	\$ 1,115,393	\$ 12,450,966	\$ 2,198,832	\$ 47,222,936
EXPENDITURES & TRANSFERS-OUT BY FUND						
General Fund	\$ 510,359	\$ 26,628,146	\$ 917,990	\$ 10,892,348	\$ 2,198,832	\$ 38,948,842
State Special Revenue Fund		3,513,623		327,599		6,040,053
Federal Special Revenue Fund		805,618		619,361		1,424,979
Capital Projects Fund				611,658		611,658
Enterprise Fund						197,403
Total Expenditures & Transfers-Out	510,359	30,947,386	197,403	12,450,966	2,198,832	47,222,936
Less: Nonbudgeted Expenditures & Transfers-Out	(601)	(27,131)	(572)	(6,379)	(1,643)	(36,326)
Actual Budgeted Expenditures & Transfers-Out	510,978	30,961,117	1,115,965	12,455,447	262	47,243,720
Budget Authority	513,356	36,503,897	1,117,546	15,353,839	2,252,625	55,741,264
Unspent Budget Authority	2,379	5,542,780	1,561	2,898,392	52,412	8,497,544
UNSPENT BUDGET AUTHORITY BY FUND						
General Fund	\$ 1,121	\$ 1,229,455	\$ 1,187	\$ 373,223	\$ 52,412	\$ 1,604,985
State Special Revenue Fund	1,258	2,695,600		12,348		2,761,618
Federal Special Revenue Fund		1,617,725		1,914,108		3,531,833
Capital Projects Fund				598,714		598,714
Enterprise Fund			394			394
Unspent Budget Authority	2,379	5,542,780	1,561	2,898,392	52,412	8,497,544

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-9.

Judicial Branch

Notes to the Financial Schedules

For the Two Fiscal Years Ended June 30, 2016

1. Summary of Significant Accounting Policies

Basis of Accounting

The branch uses the modified accrual basis of accounting, as defined by state accounting policy, for its Governmental fund category (General, State Special Revenue, Federal Special Revenue, and Capital Projects). In applying the modified accrual basis, the branch records:

- ◆ Revenues when it receives cash or when receipts are realizable, measurable, earned, and available to pay current period liabilities.
- ◆ Expenditures for valid obligations when the branch incurs the related liability and it is measurable, with the exception of the cost of employees' annual and sick leave. State accounting policy requires the branch to record the cost of employees' annual and sick leave when used or paid.

The branch uses accrual basis accounting for its Proprietary (Enterprise) and Fiduciary (Agency) fund categories. Under the accrual basis, as defined by state accounting policy, the branch records revenues in the accounting period when realizable, measurable, and earned, and records expenses in the period incurred when measurable.

Expenditures and expenses may include: entire budgeted service contracts even though the branch receives the services in a subsequent fiscal year; goods ordered with a purchase order before fiscal year-end, but not received as of fiscal year-end; and equipment ordered with a purchase order before fiscal year-end.

Basis of Presentation

The financial schedule format was adopted by the Legislative Audit Committee. The financial schedules are prepared from the transactions posted to the state's accounting system without adjustment.

The branch uses the following funds:

Governmental Fund Category

- ◆ **General Fund** – to account for all financial resources except those required to be accounted for in another fund.
- ◆ **State Special Revenue Fund** – to account for proceeds of specific revenue sources (other than private-purpose trusts or major capital projects) that are

legally restricted to expenditures for specific state program purposes. Branch State Special Revenue Funds include Youth Court fees, Juvenile Delinquency Intervention Program transfer, Judicial Education, Legal Assistance, Water Adjudication, Natural Resources, Child & Family Services Pilot Project Coordinator, Drug Court fees, and Judiciary private funds.

- ♦ **Federal Special Revenue Fund** – to account for activities funded from federal revenue sources. Branch Federal Special Revenue Funds include miscellaneous grants for District Courts, and various branch grants for computer licenses and computer hardware.
- ♦ **Capital Projects Fund** – to account for financial resources used for the acquisition or construction of major capital facilities, other than those financed by proprietary funds or trust funds. The branch uses this fund for Long Range Information Technology Projects.

Proprietary Fund Category

- ♦ **Enterprise Fund** – to account for operations (a) financed and operated in a manner similar to private business enterprises, where the Legislature intends that the branch finance or recover costs primarily through user charges; (b) where the Legislature has decided that periodic determination of revenues earned, expenses incurred or net income is appropriate; (c) where the activity is financed solely by a pledge of the net revenues from fees and charges of the activity; or (d) when laws or regulations require that the activities' cost of providing services, including capital costs, be recovered with fees and charges rather than with taxes or similar revenues. Branch Enterprise Funds include the Law Library Searches/Research fund.

Fiduciary Fund Category

- ♦ **Agency Fund** – to account for resources held by the state in a custodial capacity. Agency funds may be used on a limited basis for internal (to the State) clearing account activity but these must have a zero balance at fiscal year-end. The branch agency funds include Bad Debt Collection and District Court Youth Probation Restitution.

2. General Fund Equity Balance

The negative fund equity balance in the General Fund does not indicate overspent appropriation authority. The branch has authority to pay obligations from the statewide General Fund within its appropriation limits. The branch expends cash or other assets from the statewide fund when it pays General Fund obligations. The branch's outstanding liabilities exceed the assets it has placed in the fund, resulting in negative ending General Fund equity balances for each of the fiscal years ended June 30, 2015 and June 30, 2016.

3. Direct Entries to Fund Equity

Direct entries to fund equity in the General and State Special Revenue fund(s) include entries generated by SABHRS to reflect the flow of resources within individual funds shared by separate agencies.

4. Supreme Court Operations

The Supreme Court Operations program for fiscal year 2016 includes funding for Juvenile Placement Funds. The funding was appropriated to the Judicial Branch during the 2015 Legislative Session effective July 1, 2015. The funds were previously appropriated to and managed by the Department of Corrections. In fiscal year 2016, the Branch incurred \$1,582,141 of Benefit and Claims expenditures related to this funding. State Statute requires the Office of the Court Administrator to deposit (transfer) any unexpended funds at the end of the fiscal year into the Youth Court Intervention and Prevention account, which is also maintained and managed by the Judicial Branch. Fiscal year 2016 expenditures include a transfer of \$3,181,841.

The Supreme Court Operations program accounts for contributions paid by parents or guardians of youth under the jurisdiction of the youth court. The contributions are deposited in the state special revenue fund as Charges for Services. Fiscal year 2016 was the first year the deposits were recorded by the Office of the Court Administrator as prior legislation had required the deposits to be recorded by the Department of Corrections. In fiscal year 2016, the Branch collected \$144,806 in parental contributions.

The Supreme Court Operations program includes federal funds (approximately \$250,000 in fiscal year 2015 and \$801,000 in fiscal year 2016) to support the design, installation and implementation of a court case management information system.

The Supreme Court Operations Program includes General Fund (up to \$1,141,114 in fiscal year 2015 and \$1,288,743 in fiscal year 2016) to support the operation of Drug Treatment Courts throughout Montana. The General Fund appropriated for drug courts is administered by the Office of the Court Administrator by direction of the District Court Council and the Supreme Court. Federal funds applied for and received in support of Drug Treatment Courts are under the purview of individual district court judges and are included in the District Court Program of the Judiciary.

5. Law Library

The Law Library program incurs expenditures for online legal search services. Prior to fiscal year 2016, the expenditures were recorded as Other Services. In fiscal year 2016, the Department of Administration provided direction to change the coding from

Other Services to Other Expenses. Law Library expenditures for legal research services in fiscal year 2015 amounted to \$354,478 and in fiscal year 2016 was \$355,010.

Report on Internal Control and Compliance

LEGISLATIVE AUDIT DIVISION

B-1

Angus Maciver, Legislative Auditor
Deborah F. Butler, Legal Counsel



Deputy Legislative Auditors:
Cindy Jorgenson
Joe Murray

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL SCHEDULES PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

The Legislative Audit Committee
of the Montana State Legislature:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the Schedules of Changes in Fund Equity & Property Held in Trust, Schedules of Total Revenues & Transfers-In, and Schedules of Total Expenditures & Transfers-Out of the Judiciary for each of the fiscal years ended June 30, 2016, and 2015, and the related notes to the financial schedules, and have issued our report thereon dated January 3, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial schedules, we considered the Judiciary's internal control over financial reporting to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial schedules, but not for the purpose of expressing an opinion on the effectiveness of the Judiciary's internal control. Accordingly, we do not express an opinion on the effectiveness of Judiciary's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial schedules will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal controls was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Judiciary's financial schedules are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination on financial schedule amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Judiciary's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Judiciary's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Respectfully submitted,

/s/ *Cindy Jorgenson*

Cindy Jorgenson, CPA
Deputy Legislative Auditor
Helena, MT

January 3, 2017

JUDICIAL BRANCH

BRANCH RESPONSE

THE SUPREME COURT OF MONTANA

MIKE McGRATH
CHIEF JUSTICE



JUSTICE BUILDING
215 NORTH SANDERS
PO BOX 203001
HELENA, MONTANA 59620-3001
TELEPHONE (406) 444-5490
FAX (406) 444-3274

February 22, 2017

Angus Maciver, Legislative Auditor
Legislative Audit Division
Room 135, State Capitol
Helena, MT 59620

RECEIVED
FEB 23 2017
LEGISLATIVE AUDIT DIV.

Re: Judicial Branch Financial-Compliance Audit for FY 2015 and FY 2016

Dear Mr. Maciver:

We have reviewed the February 2017 Financial-Compliance Audit of the Judicial Branch for the two fiscal years ending June 30, 2016. As always, we value the assistance from your office in helping us identify areas in which accounting weaknesses or gaps exist. We appreciate the opportunity to respond.

The audit contains one recommendation for improving the Branch's fiscal operations. Our responses and corrective actions are presented below:

Recommendation #1

We recommend the Judicial Branch:

- A: Ensure the attorney license tax is deposited according to state law.
- B: Comply with contracting law and administrative rule when contracting with the State Bar.

Response:

We concur. The Clerk of the Supreme Court has directed the Executive Director and the Financial Manager of the State Bar to deposit attorney license tax receipts per § 17-6-105(6), MCA. The Clerk has also worked with Department of Administration to comply with contracting law. A new contract that complies with applicable procurement and contracting law with the State Bar will begin April 1, 2017.

We would like to personally thank your staff for conducting this audit in such a cooperative, professional manner. Their findings and recommendations provide valuable insight as we continue to provide judicial services in a fiscally appropriate and prudent manner.

Mr. Maciver
February 22, 2017
Page 2

We are available to answer questions or provide further information that you or the Legislative Audit Committee may require. We assure you that we will continue to do our very best to maintain proper fiscal accountability within the Judicial Branch.

Sincerely,

A handwritten signature in black ink, appearing to read "Mike McGrath".

Mike McGrath
Chief Justice

A handwritten signature in black ink, appearing to read "Beth McLaughlin".

Beth McLaughlin
Court Administrator